

Auditing Procedures Report

Local Government Type [7] City Qvillage Oother	[U] Township	Local Government Name PONTIAC HOUSING COMMISSION	County OAKLAND
Audit Date 3/31/04	Opinion Date 12/28/04	Date Accountant Report Submitted to State: 12/28/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or PA 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			/
Reports on individual federal financial assistance programs (program audits).			/
Single Audit Reports (ASLGU).	/		

Certified Public Accountant (Firm Name)

JOHN C. DIPIERO, C.P.A., P.C.

Street Address

397 SANDRIDGE DRIVE

Accountant Signature

> ~

City

HEMLOCK

State

MI

Date

12/28/04

ZIP

48626

PONTIAC HOUSING COMMISSION

Financial Statements

March 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Opinion	1
<u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Combined Statement of Revenues, Expenses, and Changes in Net Assets	3
Combined Statement of Cash Flows	4
Notes to Financial Statements	5
General Comment	11
<u>Supplemental Data</u>	
Combining Statement of Net Assets	13
Combining Statement of Revenues and Expenses	14
Schedule of Expenditures of Federal Awards	15
Status of Prior Audit Findings	16
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	17
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Schedule of Findings and Questioned Cost	21
Findings, Recommendations and Replies:	
99-1 Excessive Vacancies	23
04-1 Travel Policy Violations	24
04-2 Unauthorized Payroll Advances	26
04-3 Sec 8 Housing Choice Tenant Accounting Discrepancies	27
04-4 Inappropriate Employee Loan	28
04-5 Repairs to Commissioner Vehicle	29
04-6 Credit Card Abuse- Personal Purchases by a Commissioner	30
04-7 Excessive Telephone Bills; Personal use of Cell Phones	31
04-8 Loss of Drug Elimination Grant Funds	32
04-9 FICA Add on Overstated on PFS Application	33
04-10 Formation of Non Profit	34
04-11 Davis Bacon Act Violations	35
04-12 Equipment Losses	36

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Pontiac Housing Commission
132 Franklin Boulevard
Pontiac, Michigan 48341

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Pontiac Housing Commission as of and for the year ended March 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pontiac Housing Commission as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principals.

In accordance with Government Auditing Standards, I have also issued my report dated December 21, 2004, on my consideration of the Pontiac Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

December 21, 2004

PONTIAC HOUSING COMMISSION
Statement of Net Assets

March 31, 2004

ASSETS

C-3044

CURRENT ASSETS

Cash & Cash Equivalents	\$ 2,617,818
Accounts Receivable (Net)	7,314
Accounts Receivable- Other	920,035
Investments	1,108,401
Prepaid Expenses & Inventory (Net)	40,735
Inter Program due from	<u>471,900</u>

Total Current Assets	\$ 5,166,203
----------------------	--------------

NON CURRENT ASSETS

Land	\$ 1,744,929
Buildings	21,320,772
Furniture, Equipment- Dwellings	314,899
Furniture, Equipment- Administrative	1,039,163
Leasehold Improvements	632,504
Accumulated Depreciation	<u>(16,243,419)</u>

Total Non Current Assets	<u>8,808,848</u>
--------------------------	------------------

TOTAL ASSETS

\$ 13,975,051

PONTIAC HOUSING COMMISSION
Statement of Net Assets
March 31, 2004

LIABILITIES

C-3044

CURRENT LIABILITIES

Accounts Payable	\$ 340,199
Accrued Wages & Payroll Taxes	818,623
Accounts Payable- HUD	813
Compensated Absences	13,640
Tenants Security Deposit	50,945
Deferred Revenue	2,282
Inter-Program due to	<u>471,900</u>

Total Current Liabilities \$ 1,698,402

NONCURRENT LIABILITIES

Compensated Absences 122,763

Total Liabilities \$ 1,821,165

Net Assets:

Contributed Capital	\$ 15,456,727
Retained Earnings (Deficit)	<u>(3,302,841)</u>

Total Net Assets 12,153,886

TOTAL LIABILITIES & NET ASSETS \$ 13,975,051

The Accompanying Footnotes are an Integral Part of the Financial Statements.

PONTIAC HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended March 31, 2004

<u>OPERATING REVENUE</u>	<u>Business Type Activities</u>
Tenant Rental Revenue	\$ 614,362
HUD Grants	7,154,630
Interest Income	18,594
Other Income	<u>105,202</u>
 <u>Total Operating Revenue</u>	 \$ 7,892,788
 <u>OPERATING EXPENSES</u>	
Administrative	\$ 1,522,381
Tenant Services	66,850
Utility Expenses	395,698
Ordinary Maintenance	850,220
Protective Services	258,861
General Expenses	<u>194,684</u>
 <u>Total Operating Expenses</u>	 <u>3,288,694</u>
 <u>Operating Income (Loss)</u>	 \$ 4,604,094
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Housing Assistance Payments	\$ (4,147,422)
Depreciation Expenses	<u>(741,101)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(4,888,523)</u>
 <u>Change in Net Assets</u>	 \$ <u>(284,429)</u>
 Total Net Assets- Beginning	 12,307,087
Prior Period Adjustment: Loss of Drug Grant	(121,540)
Adjustment of Fixed Assets	<u>252,768</u>
 Adjusted Beginning Balance	 \$ <u>12,438,315</u>
 Total Net Assets- Ending	 \$ <u>12,153,886</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

PONTIAC HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended March 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 604,871
Payments to Suppliers	(5,834,278)
Payments to Employees	(1,479,862)
HUD Grants	7,154,630
Other Receipts (Payments)	<u>123,796</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>569,157</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Increase in Investments	\$ (1,008,401)
Purchases of Capital Assets	<u>(672,585)</u>
Net Cash Flows from Capital/Financing Activities	\$ <u>(1,680,986)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,111,829)
Balance- Beginning of Year	<u>3,729,647</u>
Balance- End of Year	\$ <u>2,617,818</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (284,429)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	741,101
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	199,615
Prepaid Expenses	14,997
Interfund Due From	468,264
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(296,202)
Accrued Liabilities	187,657
Accounts Payable- HUD	(25,879)
Accrued Compensated Absences	24,301
Security Deposits	7,996
Interfund Due To	<u>(468,264)</u>
Net Cash Provided by Operating Activities	\$ <u>569,157</u>

The Accompanying Notes are an Integral part of the Financial Statements

PONTIAC HOUSING COMMISSION
Notes to Financial Statements
March 31, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Pontiac Housing Commission, Pontiac, Michigan, (Commission) was created by ordinance of the city of Pontiac. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following at March 31, 2004:

MI 5-1	Low rent program	421 units
MI 28-V005	Section 8 Vouchers	718 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 164,318
Money Market Savings	2,453,000
Petty Cash	<u>500</u>
Financial Statement Total	<u>\$ 2,617,818</u>

Notes to Financial Statements- continued

Investments:

U. S. Treasury Bills	\$ 1,008,401
Certificates of Deposit	<u>100,000</u>
Financial Statement Totals	\$ <u>1,108,401</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 164,318	\$	\$	\$ 164,318	\$ 164,318
Money Market	2,453,000			2,453,000	2,453,000
Petty Cash	<u>500</u>			<u>500</u>	<u>500</u>
Total Cash	\$ <u>2,617,818</u>	\$	\$	\$ <u>2,617,818</u>	\$ <u>2,617,818</u>
Investments:					
C/D's	\$ 100,000	\$	\$	\$ 100,000	\$ 100,000
U. S. Treasury	<u>1,008,401</u>			<u>1,008,401</u>	<u>1,108,401</u>
	\$ <u>1,108,401</u>	\$	\$	\$ <u>1,108,401</u>	\$ <u>1,108,401</u>

Note 3: Prepaid Expenses

Prepaid expenses consist primarily of unexpired insurance premiums, which apply to periods after year end.

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	Beginning of Year	Additions	Deletions	End of Year
Land	\$ 1,744,929	\$	\$	\$ 1,744,929
Buildings	25,158,602	603,259	4,441,089	21,320,772
Furniture & Equipment-Dwellings	1,166,502		851,603	314,899
Furniture & Equipment-Admin	969,837	69,326		1,039,163
Leasehold Improvements	<u>677,021</u>		<u>44,517</u>	<u>632,504</u>
	\$29,716,891	\$ 672,585	\$5,337,209	\$25,052,267
Less Accumulated Depreciation	<u>20,839,527</u>	<u>741,101</u>	<u>5,337,209</u>	<u>16,243,419</u>
	\$ <u>8,877,364</u>	\$ <u>(68,516)</u>	\$ <u>0</u>	\$ <u>8,808,848</u>

Notes to Financial Statements- continued

Note 5: Pension Plan

The Commission provides a pension benefits plan for all its full time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments earnings. Employees are eligible to participate from the date of employment. The Commission contributes an amount equal to 4.9% of the employee's base salary each month while the employees may not contribute. The Commission's contributions for each employee are vested in varying increments based upon union agreements. Commission contributions for, and interest forfeited by, employees who leave employment are used to reduce the Commission's current-period contribution requirement.

The Pension Plan is the City of Pontiac Employees Retirement System which includes the General City (including Commission employees) and the Stadium Authority. Since the Commission employees are not separated from others, therefore Actuarial Accrued Liability and Annual Required Contributions data have not been presented; further information can be obtained from the City of Pontiac Employees Retirement System Annual Report for the period ended December 31, 2002.

Note 6: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 7 :Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended March 31, 2004, is as follows:

Operating Revenue	\$ 7,892,788
Operating Income	4,604,094
Non Operating Revenue (Expenses)	
Depreciation Expense	(741,101)
Housing Assistance Payments	(4,147,422)
Net Profit (Loss)	(284,429)
Non Current Assets (net)	8,808,848
Total Assets	13,975,051
Retained Earnings (Deficit)	(3,302,841)

Notes to Financial Statements- continued

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 38,722,000
General Liability	1,000,000
Errors & Omissions	1,000,000
Automobile	300,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

PONTIAC HOUSING COMMISSION
General Comment
March 31, 2004

The Pontiac Housing Commission (Commission) employees are Pontiac City employees. The Commission reimburses the City of Pontiac for all wages, payroll taxes and benefits such as health insurance and pension cost for both current and retired Commission employees.

This is a complicated issue which deserves some discussion. A question was raised by HUD in another audit situation concerning the use of public housing funds to reimburse the City's for pension and health insurance for retired City employees who were assigned to work for the Commission, when those liabilities arose out of a collective bargaining agreement between the City and the unions, and are not incurred as a result of any contractual obligations between the Commission and the unions. HUD further stated in a later communication "these expenditures are inappropriate for the PHA (Commission) to make because they are obligations incurred by the City, as agreed to in the collective bargaining agreement. They are not legitimate expenses of the PHA's (Commission's)."

The above position appears to be very definitive, but it is problematic; not only does this prohibition address the current year, it would also indicate those cost are ineligible in prior years. HUD's communication briefly touched upon the possibility of a court decision which may impact its position. The communication also failed to address the treatment of the amounts spent in the current year as well as past years.

In my opinion, this is equivalent to a legal fiction. The substance of the matter is whether these employees worked for the City, or for the Commission. In fact, they served the interest of the Commission; the Commission had direct supervision of the employees, the employees reported for work to the Commission, and the Commission's management had the right to terminate said employees. It seems too convenient for HUD to allege further obligations are not the responsibility of the Commission. In other areas, such as the Davis Bacon Act, HUD mandates that prevailing (local) wages and benefits be afforded contractor's employees, but when the prevailing (local) benefits call for post retirement benefits for Commission employees, HUD chooses to abandon those obligations.

This issue supercedes the current reporting period; post retirement benefits have been paid for retired Commission (City) employees for the past 30 years. In the years when HUD required the submission and approval of annual budgets, post retirement cost were included as a line item and approved by HUD. Office of Management and Budget (OMB) cost principle circulars A-87, A-110, and A-133 all address allowable cost issues; certain cost are unallowable unless specifically approved by the funding source; since budgets have been approved in the past including such cost, it would appear these are allowable cost.

Finally, a precedence has been set both in practice and in law. As stated above, Federal laws such as the Davis Bacon Act requires the recognition of prevailing wages and benefits in construction contracts, and, previously approved budgets specific allow the inclusion of post retirement benefits as an allowable cost. In addition, to disallow these cost currently or prospectively without addressing the prior periods would be inconsistent; such treatment could constitute a change in accounting principle which may require a qualified report.

The current financial statement presentation includes the post retirement benefits as it has in all prior years; no accrual has been made for any possible account receivable for the current or prior periods.

This comment is designed to inform the reader of the pending situation and the current treatment in the financial statements of post retirement cost. The ultimate resolution and treatment of the current and past cost is unknown at this time.

Pontiac Housing Commission

31-Mar-04

MI-005

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	HOPE VI (Revit. Of Severly Distress. PH) 14.866	PIH Drug Elimin. Program 14.854	Capital Projects Funds 14.872	TOTAL
Line Item #							
	ASSETS:						
	CURRENT ASSETS:						
	Cash:						
111	Cash - unrestricted	2,238,249	368,804			10,765	2,617,818
112	Cash - restricted - modernization and developmen	-					-
113	Cash - other restricted	-	-				-
114	Cash - tenant security deposits	-					-
100	Total cash	2,238,249	368,804	-	-	10,765	2,617,818
	Accounts and notes receivables:						
121	Accounts receivable - PHA projects						-
122	Accounts receivable - HUD other projects	-	105,422	-	-	589,024	694,446
124	Accounts receivable - other government						-
125	Accounts receivable - miscellaneous	207,417	18,172				225,589
126	Accounts receivable- tenants - dwelling rent:	11,759					11,759
126.1	Allowance for doubtful accounts - dwelling rent:	(4,445)					(4,445)
126.2	Allowance for doubtful accounts - other	-					-
127	Notes and mortgages receivable- current						-
128	Fraud recovery						-
128.1	Allowance for doubtful accounts - fraud						-
129	Accrued interest receivable	-					-
120	Total receivables, net of allowances for doubtful accounts	214,731	123,594	-	-	589,024	927,349
	Current investments						-
131	Investments - unrestricted	1,108,401	-				1,108,401
132	Investments - restricted						-
		-					
142	Prepaid expenses and other assets	19,195	4,382				23,577
143	Inventories	17,331					17,331
143.1	Allowance for obsolete inventories	(173)					(173)
144	Interprogram - due from	471,900	-			-	471,900
146	Amounts to be provided						-
150	TOTAL CURRENT ASSETS	4,069,634	496,780	-	-	599,789	5,166,203
	NONCURRENT ASSETS:						
	Fixed assets:						
161	Land	1,744,929					1,744,929
162	Buildings	20,859,459				461,313	21,320,772
163	Furniture, equipment & machinery - dwelling	272,780	-			42,119	314,899
164	Furniture, equipment & machinery - admininstrator	688,877	20,488		-	329,798	1,039,163
165	Leasehold improvements				-	632,504	632,504
166	Accumulated depreciation	(16,208,843)	(17,627)	-	-	(16,949)	(16,243,419)
160	Total fixed assets, net of accumulated depreciator	7,357,202	2,861	-	-	1,448,785	8,808,848
171	Notes and mortgages receivable - non-current						-
172	Notes and mortgages receivable-non-current-past due						-
174	Other assets						-
175	Undistributed debits						-
176	Investment in joint ventures						-
180	TOTAL NONCURRENT ASSETS	7,357,202	2,861	-	-	1,448,785	8,808,848
190	TOTAL ASSETS	11,426,836	499,641	-	-	2,048,574	13,975,051

	LIABILITIES AND EQUITY:						
	LIABILITIES:						
	CURRENT LIABILITIES						
311	Bank overdraft						-
312	Accounts payable ≤ 90 days	282,363	57,836				340,199
313	Accounts payable > 90 days past due	-					-
321	Accrued wage/payroll taxes payable	584,606	75,462			158,555	818,623
322	Accrued compensated absences	12,236	1,404				13,640
324	Accrued contingency liability						-
325	Accrued interest payable						-
331	Accounts payable - HUD PHA program:		813				813
332	Accounts Payable - PHA Projects	-					
333	Accounts payable - other government						-
341	Tenant security deposits	50,945					50,945
342	Deferred revenues	2,282					2,282
343	Current portion of Long-Term debt - capital projects						-
344	Current portion of Long-Term debt - operating borrowing:						-
345	Other current liabilities	-					-
346	Accrued liabilities - other	-				-	-
347	Inter-program - due to	-	30,666	-	-	441,234	471,900
310	TOTAL CURRENT LIABILITIES	932,432	166,181	-	-	599,789	1,698,402
	NONCURRENT LIABILITIES:						
351	Long-term debt, net of current- capital projects						-
352	Long-term debt, net of current- operating borrowing:						-
353	Noncurrent liabilities- other	110,126	12,637				122,763
350	TOTAL NONCURRENT LIABILITIES	110,126	12,637	-	-	-	122,763
300	TOTAL LIABILITIES	1,042,558	178,818	-	-	599,789	1,821,165
	EQUITY:						
501	Investment in general fixed assets	-	-			-	-
	Contributed Capital:						
502	Project notes (HUD)	-					-
503	Long-term debt - HUD guaranteed	3,928,884					3,928,884
504	Net HUD PHA contributions	11,510,130	-		-		11,510,130
505	Other HUD contributions						-
507	Other contributions	17,713					17,713
508	Total contributed capital	15,456,727	-	-	-	-	15,456,727
	Reserved fund balance:						
509	Reserved for operating activities						-
510	Reserved for capital activities						-
511	Total reserved fund balance	-	-	-	-	-	-
512	Undesignated fund balance/retained earnings	(5,072,449)	320,823		-	1,448,785	(3,302,841)
513	TOTAL EQUITY	10,384,278	320,823	-	-	1,448,785	12,153,886
600	TOTAL LIABILITIES AND EQUITY	11,426,836	499,641	-	-	2,048,574	13,975,051

Proof of concept

- - - - -

transfer of closed cpg equity

-

Pontiac Housing Commission

31-Mar-04

MI-005

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	HOPE VI (Revit.of Severly Distress. PH) 14.866	PIH Drug Elimin. Program 14.854	Capital Projects Funds 14.872	TOTAL
Line Item #							
	REVENUE:						
703	Net tenant rental revenue	614,362			-	-	614,362
704	Tenant revenue - other	-					-
705	Total tenant revenue	614,362	-	-	-	-	614,362
706	HUD PHA grants	1,856,576	4,488,319	4,714	-	805,021	7,154,630
708	Other government grants						-
711	Investment income - unrestricted	16,711	1,883				18,594
712	Mortgage interest income	-					-
714	Fraud recovery		-				-
715	Other revenue	105,202	-				105,202
716	Gain or loss on the sale of fixed assets	-					-
720	Investment income - restricted						-
700	TOTAL REVENUE	2,592,851	4,490,202	4,714	-	805,021	7,892,788
	EXPENSES:						
	Administrative						
911	Administrative salaries	436,845	206,342	-	-	135,167	778,354
912	Auditing fees	7,250	-				7,250
913	Outside management fees						-
914	Compensated absences	24,725	(424)				24,301
915	Employee benefit contributions- administrative	151,907	62,868				214,775
916	Other operating- administrative	362,095	96,208	-	-	39,398	497,701
	Tenant services						
921	Tenant services - salaries	29,792					29,792
922	Relocation costs			-			-
923	Employee benefit contributions- tenant services	-					-
924	Tenant services - other	37,058			-		37,058
	Utilities						
931	Water	83,104					83,104
932	Electricity	124,106					124,106
933	Gas	188,488					188,488
934	Fuel						-
935	Labor						-
937	Employee benefit contributions- utilities						-
938	Other utilities expense	-					-
	Ordinary maintenance & operation						
941	Ordinary maintenance and operations - labor	431,251					431,251
942	Ordinary maintenance and operations - materials & other	75,312					75,312
943	Ordinary maintenance and operations - contract costs	159,164					159,164
945	Employee benefit contributions- ordinary maintenance	184,493					184,493
	Protective services						
951	Protective services - labor	240,465			-		240,465

952	Protective services- other contract costs				-		-
953	Protective services - other						-
955	Employee benefit contributions- protective service:	18,396					18,396
	General expenses						
961	Insurance premiums	183,495					183,495
962	Other General Expenses						
963	Payments in lieu of taxes						-
964	Bad debt - tenant rents	11,189					11,189
965	Bad debt- mortgages						-
966	Bad debt - other						-
967	Interest expense						-
968	Severance expense						-
969	TOTAL OPERATING EXPENSES	2,749,135	364,994	-	-	174,565	3,288,694
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(156,284)	4,125,208	4,714	-	630,456	4,604,094
971	Extraordinary maintenance						-
972	Casualty losses - non-capitalized						-
973	Housing assistance payments:	-	4,147,422				4,147,422
974	Depreciation expense	733,800	387		3,678	3,236	741,101
975	Fraud losses						-
976	Capital outlays- governmental funds	-					-
977	Debt principal payment- governmental fund:						-
978	Dwelling units rent expense						-
900	TOTAL EXPENSES	3,482,935	4,512,803	-	3,678	177,801	8,177,217
	OTHER FINANCING SOURCES (USES)						
1001	Operating transfers in (out)	114,614		(4,714)		(109,900)	-
1002	Operating transfers out						-
1003	Operating transfers from/to primary government						-
1004	Operating transfers from/to component unit						-
1005	Proceeds from notes, loans and bonds						-
1006	Proceeds from property sales						-
1010	TOTAL OTHER FINANCING SOURCES (USES)	114,614	-	(4,714)	-	(109,900)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(775,470)	(22,601)	-	(3,678)	517,320	(284,429)

PONTIAC HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3044 Operating Subsidies	\$ <u>1,856,576</u>
* <u>CFDA 14.872 Capital Fund Project</u>	
C-3044 Capital Funds Project	\$ <u>805,021</u>
* <u>CFDA 14.871 Housing Choice Vouchers</u>	
C-3159V Section 8 Rental Vouchers	\$ <u>4,488,319</u>
* <u>CFDA 14.866 HOPE VI</u>	
C-3044 Hope VI	\$ <u>4,714</u>
	\$ <u>7,154,630</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 38,722,000
General Liability	1,000,000
Dishonesty Bond	1,000,000
Automobile Liability	300,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

PONTIAC HOUSING COMMISSION
Status of Prior Audit Findings
March 31, 2004

The prior audit of the Pontiac Housing Commission for the period ended March 31, 2003, contained four findings. The corrective actions of the Commission is as follows:

- 1) Excess Vacancies- The vacancies have continued; see repeat finding.
- 2) RIM Review and Tenant Accounting Discrepancies- Another review has been conducted and current year review has revealed additional discrepancies. See current year finding.
- 3) Procurement Policy Violations and Questioned Cost- The explanation offered by the Commission satisfied HUD; no further action is required.
- 4) Davis Bacon Act discrepancies- repeat finding.

PONTIAC HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
March 31, 2004

Compliance

I have audited the compliance of Pontiac Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2004. Pontiac Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pontiac Housing Commission's management. My responsibility is to express an opinion on Pontiac Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pontiac Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Pontiac Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Excess Vacancies	99-1	Equipment & Real Property Management, Program Income
Travel Policy Violations	04-1	Activities allowed or unallowed; Cash Management
Unauthorized Payroll Advances	04-2	Activities allowed or unallowed
Inappropriate Employee Loan	04-4	Activities allowed or unallowed, Allowable costs/cost principles, Cash Management, Program Income
Repairs to Commissioner Vehicle	04-5	Activities allowed or unallowed, Allowable costs/cost principles, Cash Management, Program Income

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Credit Card Abuse	04-6	Activities allowed or unallowed, Allowable costs/cost principles, Cash Management, Program Income
Excessive Telephone Bills	04-7	Allowable costs/cost principles, Cash Management, Program Income
FICA Add On Discrepancy	04-9	Program Income
Advance of funds	04-10	Allowable costs/cost principles, Cash Management, Program Income
Equipment Losses	04-12	Equipment and real property management

Housing Choice Vouchers:

Tenant Accounting Discrepancies	04-3	Program Income
---------------------------------	------	----------------

Drug Elimination Grant:

Loss of Funding	04-8	Period of Availability of Federal Funds
-----------------	------	---

Capital Fund Projects:

Davis Bacon Act Discrepancies	04-11	Davis-Bacon Act
-------------------------------	-------	-----------------

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2004.

Internal Control over Compliance

The management of Pontiac Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Pontiac Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commissions ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. See the findings and questioned cost section of this report.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

December 21, 2004

PONTIAC HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
March 31, 2004

I have audited the financial statements of Pontiac Housing Commission, Pontiac, Michigan, as of and for the year ended March 31, 2004, and have issued my report thereon dated December 21, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pontiac Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Pontiac Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note instances in financial reporting which may be considered weaknesses that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

December 21, 2004

PONTIAC HOUSING COMMISSION
Schedule of Findings and Questioned Cost
March 31, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Programs	X	
Hope VI	X	
Capital Projects Funds	X	
Drug Elimination Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	___X___ No
Reportable condition(s) noted	_____ Yes	___X___ No
Non Compliance material to financial statements noted	_____ Yes	___X___ No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	___X___ Yes	_____ No
Reportable condition(s) noted	___X___ Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	___X___ No

Schedule of Findings and Questioned Cost- continued

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	No	99-1, 04-1, 04-2, 04-4, 04-5, 04-6, 04-7, 04-9 04-10, 04-12
Housing Choice Vouchers	Yes	No	04-3
Hope VI	Yes	No	N/A
Capital Projects Funds	Yes	No	04-11
Drug Elimination	Yes	No	04-8

PONTIAC HOUSING COMMISSION
Findings, Recommendations and Replies
March 31, 2004

The following findings, of the Pontiac Housing Commission, for the year ended March 31, 2004, were discussed with Mr. Franklin Hatchett, Executive Director, in an exit interview conducted December 21, 2004.

Finding 99-1: Excess Vacancies

The Commission has approximately 35% of available units vacant; this is an on going problem and a repeat finding.

Recommendation

Last year the percentage of vacant units was 31%; some of the units which were off line due to modernization have been brought back on line, and the over overall percentage of vacant units has decreased, however, the overall number of vacant units remains around 130.

The Commission has had a long history of vacancies in the senior high rise apartments; this is due in part to competition in the area, amenities offered, age of the facility and location.

I recommend the Commission continue to work with HUD in its attempt to lower the vacancy levels.

Reply

The PHC gave training to the Leasing & Occupancy Specialist, who received expertise in the area of marketing out PHC units. She put in place a strategic plan to increase outreach efforts by conducting community outreach presentations to inform the community about PHC's available affordable public housing. All PHC staff are now participating in the marketing of our public housing. These efforts are paying off as we are now seeing an increase in occupancy and a decrease in vacancy levels. (See attached charts that reflect a 4 percent increase in occupancy and a 4 percent vacancy reduction.)

While these numbers may not seem that significant, we look at it as quite an accomplishment, since in previous years the average number of move-ins per month had been 0. Moreover, with the steady use of our new marketing efforts we anticipate that our vacancy rate will continue to decrease.

Finding 04-1: Travel Policy Violations.

The Commission has a travel policy, but several provisions have been routinely violated. The "Report of Expenses" have not been filed timely by either staff or the commissioners; the amount of the travel allowances differs from the amount being paid; the per diem amounts exceed Internal Revenue Service (IRS) limits and are not being reported correctly; personal use of Commission vehicles has not been reported; travel budgets have been exceeded.

Recommendation

The Travel Policy states in part. . .point 5) Upon return a Report of Expenses is used to report actual expenses incurred while on approved overnight travel. This report must be submitted no later than five working days following the return from travel. Any required receipts must be attached to the form. Any traveler who fails to reconcile travel within the time limits will not be permitted to travel in the future until all balances are reconciled. Point 13) The per diem for food shall be \$ 65. per day. Point 15) The Director of Operations, Human Services, and Mod/Maintenance, will receive a monthly car allowance for in town travel equal to \$ 200/per month.

I tested 8 travel advances and found 6 have not been reconciled; this includes both Commissioners and staff; all unreconciled travel advances are at least 12 months old. All of the individuals involved with the unreconciled travel advances have subsequently been advanced more travel money and have not been restricted as stated in the travel policy.

The Director's contract calls for a travel advance of \$ 465 per month; the travel policy states the travel advance for the Director for local travel will be \$ 200 per month. Obviously the two are in conflict; one or both should be changed to be in compliance.

The IRS has established per diem allowances; in the event that the allowance exceeds the IRS levels, the individual must either make an accounting to the Company (Commission), or the excess must be included on a 1099 or the employees W-2. The current IRS level for per diem in a high income local is \$ 45 per day. The travel policy exceeds IRS levels therefore will require an accounting or inclusion of the travel advance on the employees W-2 or a 1099 for Commissioners.

Currently three staff members have use of Commission vehicles exclusively; they are assigned the vehicle and take it home after working hours. The cost of operation, insurance, repairs, etc., are paid by the Commission. These individuals have use of the vehicles because they are on call- all year long. No mileage logs are being recorded for these vehicles; no personal use of these vehicles is being added to the employees W-2's as required by the IRS. The individuals on call are the Director, Maintenance Supervisor, and the Housing Administrator.

The approved travel budget for the year ended March 31, 2004 was \$ 38,180; the actual travel for the year ended March 31, 2004 was \$ 63,426.

It is obvious that travel is out of control; the policy is not being followed or enforced, Commissioners and Staff have not been accountable for travel advances, per diem advances have been paid in excess of IRS rules, and staff members have been granted use of Commission vehicles without any accountability.

Finding 04-1, continued

I recommend the following: Strict adherence to the existing travel policy- full accounting within 5 working days after return of travel or a ban on any future travel. I recommend per diem allowances be eliminated- produce receipts or return any advances; mileage logs must be maintained for all Commission vehicles- eliminate the overnight use of any vehicle except for one on call individual- rotate the responsibility so that no one individual is on call all year long. During the fiscal year 7200 calls were responded to by the security staff; the Housing Administrator did not respond to one of those calls; the Maintenance Supervisor and Director responded to a minimal number of calls- therefore, I do not find the justification for the Commission to afford three individuals the luxury of a vehicle all year long. In addition, a mileage log should be used for all Commission vehicles to establish personal and business use of the vehicle.

Some travel for both staff and Commissioners has been charged to the Section 8 program when in fact the training was for programs other than the Section 8 program; accounting for program cost should be restricted to the program involved, charging travel to what ever program can afford the cost is not acceptable.

Reply

The PHC has recognized the need to update its travel policy and reviewed it during the month of October. The revisions were made to the policy to update it. The changes have been posted as of November 19th for public review for a 45 day commentary period.

Staff Travel Allowances

The changes to the travel policy are as follows: The PHC no longer have Directors of Operations, Human Service and or Mod/Maintenance, therefore the language in the policy was obsolete and none of these positions nor any other positions are currently receiving \$ 200 per month as stated in the policy. In addition the Finance Director and Executive Director's contract language govern all procedures and processes as it relates to their local travel allowance, therefore all language related to staff travel allowances have been removed out of the travel policy.

Travel Advances

The PHC recognizes that there were some errors in the reconciliation processes and thus some travel advances were not properly reconciled. In an effort that this will not happen again, we will require the Finance division to report all travel reconciliation's to the Housing Administrator prior to planning training. Obviously, all parties who have not reconciled their advances will be made to reimburse, or properly reconcile their expenses to the PHC.

Per diem Allowances

The travel policy has had a rate o \$ 65.00 per diem for meals since the policy was first established via resolution in 2001. Because the Commission has not separated itself from the City, and the majority of staff are city employees, the per diem allowance for meals are the same as the amounts given to City of Pontiac employees in accordance with their travel policy. As of this date, in

previous audits, this particular finding regarding the per diem was never brought to the attention of this agency. As a result of this finding the PHC has contacted the Society for Human Resources management. In doing so the PHC was informed by the SHRM professional consultant that the IRS does have standards for per diem travel amounts, but these standards are not requirements. The IRS standard amounts are based on location and can be found via the internet at the following address website:

<http://policyworks.gov/org/main/mt/homepage/mtt/perdiem/travel.htm>.

There are not any penalties for an organization that opts not to utilize the IRS standards and the organization is not required to put these amounts on employee W-2 forms because the per diem rates are not employee wages. These funds are considered organization business expenses as the monies are used for business related travel and lodging. An organization must adhere to their own policy and most agency policies require that the individuals return unused portions of the per diem, but are not required to reimburse per diem amounts in accordance with the location. Agencies can also opt to use the high low cost amount for the break down of meals.

Commission Vehicles

The Executive Director's employment contract gives an option for Director to receive either a travel allowances or a vehicle. The Director opted to have a Commission vehicle and the contract does not speak to any requirement that a mileage log must be completed nor should it be placed on the employee's W-2 form for personal usage, as its usage is for PHC business.

The Housing Administrator is second in the chain of command for the PHC organization and is required to do business related travel as directed by the Executive Director and/or act in the Executive Director's stead. As a result of these duties and functions the Housing Administrator utilizes the PHC commission vehicle. Note that the vehicle that is being utilized by the Housing Administrator was purchased in October of 2000 and is paid for. The fact that the Housing Administrator utilizes the PHC's vehicle represents a savings to the agency. It is also important to note that prior to the Housing Administrator's usage of the vehicle previous administrations allowed the vehicle to sit, while staff used their own personal vehicles for business related purposes. This resulted in the vehicle having serious maintenance problems due to under utilization that the PHC had to pay for in addition to paying staff for reimbursement and wear on tear on their personal vehicles. The PHC does not want to have same issue arise.

The Maintenance Supervisor and the Property Management Coordinator are responsible for on call and all site emergencies. Their responsibility is rotated equally through out the year, if the facility coordinator is on-call then the supervisor leaves his car on-site and vice versa.

The housing commission will employ mileage logs for business and personal use on PHC vehicles.

In the previous year (2003) the Section 8 budget was utilized to pay for training and travel as a matter of past practice. This is no longer the case in the current 2004 fiscal year budget, all travel and training that does not pertain to Section 8 is charged to the PHC General Fund.

Finding 04-2: Unauthorized Payroll Advances.

The City of Pontiac has a policy concerning payroll advances. The Commission is obligated to follow either Federal, State, or Local rules and regulations, which ever is the most restrictive; advances were made in violation of Local rules-the City policy.

Recommendation

The employees of the Commission are City of Pontiac employees; please see general comment, therefore, the Commission is obligated to follow City of Pontiac policies. The City policy states in part. . If a full-time employee expects to be out of town on both Thursday and Friday of pay week, the employee may request an early check. The request shall be for one pay period only (80 hours regular time) per each trip and/or vacation. It further states that if the request for the advance is less than five working days before the issue date, the request will not be processed.

I examined several payroll advances made to employees; some exceeded the payroll check date. As of the date of this audit, two employees still owed advances which exceeded several months after the payroll check date- this is a clear violation of the City of Pontiac payroll advance policy. At no time does the policy state that an advance will exceed the issue date of the check. The City policy was intended to accommodate out of town situations; the advances at the Commission were granted and paid by the Commission to the employee, then the paycheck was received timely and both the advance and paycheck were kept by the employee. This constitutes a loan, not an advance of pay.

I recommend that the payroll advances outstanding currently be reimbursed within the next payroll cycle and that the Commission follow the existing policy regarding payroll advances; only allowed by the City, and only outstanding until the regular paycheck is issued.

Reply

All payroll advances that were currently outstanding have been fully reimbursed. It is our intention to follow strict adherence to the City's payroll advance policy.

Finding 04-3: Section 8 Housing Choice Tenant Accounting Discrepancies.

The Detroit Office of Public Housing conducted a Rental Integrity Monitoring (RIM) review in April, 2004, and issued it's letter of findings in October 2004.

During the current audit period, I tested 18 Section 8 files; the following errors were noted: Four files did not have proper third party income verifications; four files used the wrong utility allowances.

Recommendation

The RIM review was conducted after the fiscal year end, however, the errors were consistent with the findings in the current audit. The Commission is in the process of responding to the findings.

I recommend the Commission re-address the tenant accounting process; training, monitoring, and documentation of employee errors should be employed. Correction of all the errors revealed in the current audit and RIM review are necessary; future re-exams must be conducted in compliance with HUD regulations.

Reply

Although it appeared that the PHC didn't obtain third party verification from the independent source, in actuality, our Section 8 staff did. There was a failure to document the file as to when the verification went out and when it was returned. Staff are now aware of their responsibility to document the file as required.

The Section 8 Administrator updated the Verification Policy and procedure. The new policy is in accordance with PIH Notice 2004-01.

- a) There is a mandatory requirement for use of TASS by Section 8 staff for SS and SSI Verification as a UIIV technique.
- b) Each S8 staff person now has PIC ID and password because on for verification of income. All files will be documented using a comment sheet with an explanation and tracking of all verification methods as described in our new policy.
- c) The Applicant/Tenant Checklist was revised to contain specific questions in the area of child care and medical expenses so that staff persons, will get more specific details regarding what third party verifications are necessary during client interviews.

In regards to the errors that indicated that the tenant declaration disclosed one thing, and we failed to obtain what was disclosed, the error reports note that the third-party verification wasn't sent for because during the interview, it was found that the asset didn't exist or the tenant misunderstood what was being asked on the form. Our staff is now aware that when this occurs, they are required to document the tenant's file.

All other errors as sited have been corrected. Note that our Section 8 staff has had extensive training and therefore the errors that were sited will not be an issue in the future.

Finding 04-4: Inappropriate Employee Loan.

The Commission's President and Executive Director gave a loan to the Director in the amount of \$ 29,554.50. The terms of the loan were: interest free, payable in full within six months.

Recommendation

Loans to employees by the Commission are in direct violation of the following:

- Annual Contributions Contract Sec. 313. Covenant Against Conveyance or Encumbrance.
- Office of Management and Budget (OMB) circulars:
 - A-87 *Cost Principles for State, Local, and Indian Tribal Governments*
 - A-122 *Cost Principles for Non Profit Organizations*
 - A-133 *Audits of States, local Governments, and Non Profit Organizations*

In addition to the direct violation of the above, it (personal loans) violated the fiduciary responsibility of the highest member of the Commission, and the most responsible paid position of the Commission- the Executive Director. The other Commissioners deny any knowledge of this arrangement; the Commission does not receive a listing of the checks or invoices paid- only a dual signature is required- the Director and Board President.

The Circulars mentioned above have a common message: "transactions must be ordinary, necessary and reasonable for the proper and efficient performance of Federal awards"; a loan to an employee is not ordinary, necessary or reasonable.

The loans were made over a three month period beginning in April 2003 and were not repaid until April 2004. In addition to being interest free, no penalty was assessed on the late payment. The Commission, (President and Director) routinely assess a \$ 50 late rent payment to the residents and if non payment continues, the resident is evicted- the Director was six months late with her payment and no penalty was assessed. The Director was terminated in April 2004 based on other deficiencies; the loan was recaptured from her separation check which represented the balance of her employment contract.

The Commission is not a bank, nor was established to accommodate the needs of the staff or elected Commissioners; either the two most entrusted individuals from the elected and hired ranks did not realized that such an action would violate contractual and mandated principles, or, they deliberately disregarded those rules to satisfy their own interest. Neither scenario is very flattering.

I recommend a complete list of all disbursements be given to the full Board or reviewed by a committee for the board, maybe this kind of deception could have been avoided.

Reply

This particular situation took place in the previous administration and was a one time occurrence that will not take place again under the current administration.

Finding 04-5: Repairs to a Commissioner's personal vehicle; questioned cost of \$ 1,336.22.

A repair bill for a Commissioner's personal vehicle was paid to a local dealership; there was no discussion of this in the board minutes, and no mileage log or travel documentation was attached to the invoice.

Recommendation

The repairs were made at a local dealership and billed to the Commission; the repairs were paid in full on August 27, 2004. The Commissioner alleges that she is an advocate for the Commission/Board; however, the minutes did not indicate that she was expected or authorized to travel on behalf of the Board or Commission. In addition, the travel policy does not provide for repairs in lieu of presenting a mileage log to the Board for reimbursement at the authorized mileage rate.

This action appears to be unusual and violates the travel policy. I recommend that the repairs be repaid to the Commission; if the travel was authorized, the Commissioner should present the actual miles traveled for reimbursement under the existing travel policy.

Reply

The Commissioner in question requested in writing that the PHC reimburse her for car repair expenses which she incurred on behalf of the Commission.

Finding 04-6 Credit Card Abuse- Personal purchases by a Commissioner.

The President of the Board obtained a Commission credit card and charged \$ 6,917.71 for personal items; once the charges were discovered by the staff, a \$ 5,000. repayment was made, the balance was paid on 11/15/04 during the course of this audit. The credit card privileges have been removed from this Commissioner.

Recommendation

The Commission is obligated to follow Federal, State, and Local ordinances, which ever is the most restrictive. In addition to the cost principles mentioned in previous findings, the City of Pontiac has a Credit Card Policy.

City policy section 445.02 states in part. . . *"At no time are city credit cards to be used for personal reasons"*

Although the Commission does not have its own credit card policy, it is obligated to follow the local policy regarding credit card use. Therefore, the Board President violated that policy. In addition to the outright abuse of the City policy, she violated her fiduciary responsibility to the Commission. The personal use of the Commission's credit card is not ordinary, necessary, or reasonable in managing Federal awards. The other Commissioners were unaware of her actions; it was only after the card had exceeded the credit limits did the staff become aware of the personal charges. The personal charges began in May 2004, and did not get discovered until August 2004- by then \$ 6,868.77 had been charged. A payment for \$ 5,000 was made August 30, 2004, the balance was paid in full on 11/15/04, during the audit.

I recommend the Commission adopt a credit card policy; it must be at least as restrictive as the City policy. Further, no credit cards should be used by the Commissioners; any travel or authorized transaction can go through the normal procurement policy executed by the staff. This abuse demonstrates a lack of knowledge concerning the local policies on the part of the President of the Commission, or, a complete disregard for the policy; again, neither scenario is acceptable.

Reply

We concur with the finding and the PHC commission will adopt a Credit Card Usage policy. It is important to note that all funds have been fully reimbursed.

Finding 04-7 Excessive Telephone bills; personal use of Cell Phones.

There are 22 employees, 5 Commissioners, 12 security personnel; every building has land lines including phones in every office; and, 21 individual cell phones. The Commission spent \$ 66,000 on telephone charges. The cell phone's had over \$ 14,000 in over minute charges; of which, only \$ 2,900 has been repaid to the Commission.

The cell phone usage and personal charges are excessive.

Recommendation

The President of the Commission has a cell phone; she has accumulated excess minute charges in the amount of \$ 2,436. In an effort to curtail the overages, the Commission opted to go to an unlimited plan on that phone; the basic charge went from \$ 39/mo, to \$ 199/mo. Other employees have accumulated large overages; some repayments have been made, most of those phones have been recalled and only a two way is provided to the maintenance staff.

Another Commissioner wanted to be reimbursed for her personal cell phone use for business purposes, however, no documentation of the business use was provided. The Commission passed a resolution # 1218 to deny such a payment; later the resolution was rescinded and the Commissioner was granted a payment provided it went directly to the cell phone company. The check was made payable to the Commissioner for \$ 500.

The President of the Commission and the Commissioner that was referred to in finding # 04-5 (repairs to personal vehicle) are both involved in excessive, undocumented cell phone use.

Commission's operated for decades without cell phones; I do not believe any Commissioner should be provided with their own cell phone paid for by the Commission, or reimbursement of cell phone use- especially without documentation. I further believe that only a very limited number of staff have a need for such a convenience. If a cell phone is provided, a log should be maintained of every call (incoming and outgoing) made so that personal use can be eliminated or charged to the individual. I conducted a sample of the cell phone bills to try and determine the personal use portion; I have many outgoing calls all hours of the day and night; the incoming calls do not show the number, however, calls were received all hours.

I recommend all cell phones be eliminated, or the alternative would be to reduce the service to a minimum for emergency purposes only and require a log be maintained on all calls. If a call is not logged, the cost should be reimbursed to the Commission. No Commissioner should have a Commission paid cell phone; no payments should be made without proper documentation.

Reply

The previous administration thought it necessary that all maintenance staff have cell phones. However in retrospect that PHC discovered that this was not necessary. The \$ 14,000 overtime minute charge can be largely attributed to Maintenance abuse. As a result of this abuse, the Maintenance staff telephone privileges have been restricted to two-way radio communication only. We further recognize that Commissioner cell phone use should be limited to commission business use only and should not exceed our \$ 40.00 limited usage package.

Finding 04-8 Loss of Drug Elimination Grant Funds.

The Commission submitted a budget revision to HUD on December 3, 2001; the revision was approved in writing on December 19, 2001. On November 26, 2002 invoices submitted according to the budget revision were denied. The denial affected the 1999 Drug Elimination Grant; but that rejection caused the 2000 and 2001 Drug Elimination Grants to be frozen. Funding on all three programs ran out and \$ 194,745. of funding was recaptured.

Recommendation

The budget revision which was approved included items which were specifically denied in the letter dated November 26, 2002. The Commission delivered documents requested to the area office, however, the LOCCS system was frozen until the time expired to successfully draw the funds.

I believe HUD's review staff should be held accountable for the loss of funding; the approval letter clearly states the items later denied were approved. I believe the Commission acted in good faith and relied on the information provided from the area office.

I recommend the Commission appeal the loss of funding based on the above facts and proceed beyond the Detroit area office if necessary.

Reply

The Pontiac Housing Commission wishes to thank the auditor for recognizing the unfair way we were treated regarding the PHDEP grants. We will appeal the loss of funding to the Department of Housing and Urban Development.

Finding 04-9: FICA Add On Overstated on PFS Application.

The FICA add on represents the difference between the base rate and base wages to the current rate and current wages. The Commission calculated the add on only for positions which existed in the base year; the result was additional funding in the amount of \$ 27,541.

Recommendation

The calculation was submitted as follows:

Current year wages	\$ 1,546,006	
Current year rate	<u>.0765</u>	
		\$ 118,269
Base year wages	\$ 211,886	
Base year rate	<u>.0585</u>	
		<u>12,395</u>
Add on		\$ <u>105,874</u>

The correct Base year wages including all positions currently funded are as follows:

Base year wages	\$ 682,662	
Base year rate	<u>.0585</u>	
Corrected base year		\$ <u>39,936</u>
Overfunded amount		\$ <u>27,541</u>

I recommend HUD consider the error and adjust the subsidy funding accordingly. In the future I recommend the FICA add on be calculated correctly using all the current positions.

Reply

In the future the FICA add on will be calculated correctly using all the current positions.

Finding 04-10: Questioned Cost- Formation of Non Profit.

The Commission paid \$ 2,500 in legal fees to form a separate Non Profit organization. The board members of the Non Profit are the same as the Pontiac Housing commission. The legal fees were expensed to the Low Rent Program.

Recommendation

The Commission is prohibited from spending Low Rent funds on outside organizations. The audit will reclassify the legal fee as an account receivable-other from the Non Profit.

Several years ago HUD encouraged Commission's to be innovative and create new funding methods; the idea was to have Commission's become more independent and not rely solely on HUD for grants. However, HUD expected these funding methods to be completed without assistance from HUD programs, therefore, the payment must be reimbursed to the Commission.

I recommend the Commission seek outside contributions for the Non Profit and then repay the legal fees to the Low Rent Program. In the future, no program reserves can be used for outside agencies.

Reply

The expenditure will be reclassified as an Account Receivable-Other. The PHC will seek outside donations to repay the Low Rent Program.

Finding 04-11: Davis Bacon Act Violations.

The Commission failed to obtain certified payrolls from the construction contractors and did not conduct any contractor employee interviews for the audit period. There was a Davis Bacon Act violation last year based on job classifications; this year it is impossible to determine if job classifications are correct because the payrolls were unavailable.

Recommendation

The Commission has failed to comply with the minimum monitoring requirements for grants by not obtaining the certified payrolls; it is impossible to determine if prevailing wages were paid, job classifications were correct, hours, etc.

Last year I recommended the Commission review the payrolls before releasing payments to the contractors; this year I recommend HUD review the Commission's compliance before releasing the funds to the Commission.

Reply

At this time the PHC is in the process of consulting with the contractor to ensure that our records are correct.

In June 2004 the Pontiac Housing Commission hired a Procurement Specialist to assist with all Modernization Projects. The PHC's Modernization Division will perform the following task for corrective measures:

In Service Training

1. Internet training of where to look when requesting the classifications and wage rates.
2. Prepare a Project Wage/Rate Sheet that will only show classifications and wage rates for each project.
3. Conducting employee wage interviews with the proper form.
4. Ensure the contractor is displaying the wage rate sheet at the job site
5. Ensure that all reporting requirements are met prior to releasing payments of all active projects

The PHC is in the process of conducting the aforementioned five items, to ensure we are performing proper contract management effectively, and the reviewing of files on a continuous basis.

Finding 04-12: Equipment Losses.

The Commission had stolen equipment in the amount of \$ 23,601. during the fiscal year. The security measures employed by the Commission are ineffective.

Recommendation

The Commission has locked buildings which require either a pass key or admittance by a building monitor. The Commission spends over \$ 250,000 in security each year; the Commission has security camera's in place, locked storage areas, locked offices; and yet, over \$ 20,000 of items were stolen. The list of items include: 5 computers, a monitor, 2 keyboards, 2 printers, snow blower, several mowers, table saw, several trimmers, chairs, lamps, etc.

I recommend the Commission re-think its security program. I believe it is not working; if around the clock security and surveillance can't prevent the above thievery, then why have the cost of the security. Unprotected or unguarded areas are subject to break-in's, but the premise is supposed to be under surveillance with live guards around the clock- the security is not performing adequately.

Recommendation

We feel that the security measures that were in place were not adequate. We are currently taking steps to install surveillance cameras in the Maintenance Shop and the Warehouse where the majority of the thefts have occurred. This will assist security in investigating thefts on our premises. We have also had a very difficult time having the Police to assist with the investigation of these past break-ins. We have since spoken directly with the Mayor and Police Chief to remedy this matter. In addition, our security staff will receive training to adequately perform their responsibilities.